

Maurice Hinchey NEWS

26TH CONGRESSIONAL DISTRICT, NEW YORK

FOR IMMEDIATE RELEASE

July 24, 2002

HINCHEY-SPONSORED AMENDMENT TO PROTECT WORKERS' PENSIONS PASSES HOUSE

WASHINGTON - U.S. Representative Maurice Hinchey today commended his House colleagues for passing a measure he sponsored to protect workers' retirement benefits. The Sanders-Gutknecht-Hinchey-Miller Amendment to the Treasury-Postal Appropriations bill keeps the Internal Revenue Service from undermining the rules about how companies convert traditional pensions to cash-balance plans.

"Beginning in 1995, Congress started relaxing the laws and regulations that govern the conduct of corporations," said Hinchey, speaking during debate on the House floor. "The corporate crime wave we have become aware of in recent months can be directly traced to these measures that reduced government oversight. One of the many problems we have witnessed is the way businesses have abused their fiduciary responsibility to workers by raiding their pensions."

Hundreds of companies across the country, including IBM and other large employers in the Southern Tier and Hudson Valley regions, have converted their traditional defined benefit pension plans to cash balance plans, which pay benefits in a manner similar to that of 401(k)s. Federal pension law bars companies from diluting the benefits already earned by employees before the conversion. They must, at the time of the conversion, give each worker an amount equal to the "present value" of their future pension benefits. The present value should be an amount that would, in the years between the conversion and the worker's retirement, earn enough interest to equal the benefit that would have been provided under the defined benefit plan.

In calculating the present value, companies have been assuming high annual rates of return since that assumption drastically reduces what they must pay their employees. An IRS rule sets the assumed interest rate at around five percent, but the agency has not been enforcing its rule. The amendment that passed the House today by a vote of 308-121 forces the IRS to do so.

"Each year retirees who get thrown into these cash balance plans are being shortchanged by their employers by anywhere from \$85 million to \$200 million," Hinchey added. "This amendment was necessary to stop companies from stealing their workers' pensions. I'm gratified that so many of my colleagues agreed."

Hinchey has also sponsored legislation that would give employees a choice between the two types of pension plans when a conversion is proposed.